

NATIONAL DAIRY MARKET AT A GLANCE

CHICAGO MERCANTILE EXCHANGE (CME) CASH MARKETS (8/25)
BUTTER: Grade AA closed at \$1.3550. The weekly average for Grade AA is \$1.3120 (+.0235).

CHEESE: Barrels closed at \$1.2900 and blocks at \$1.2950. The weekly average for barrels is \$1.2545 (+.0360) and blocks, \$1.2535 (+.0310).

BUTTER: Butter markets across the country remain firm with prices moving higher and lower during recent trading sessions, but the trend continues higher. Churning activity is limited by the tight cream supply situation. Some butter handlers are reaching to the CME for butter supplies rather than dipping into declining inventories. Many butter producers and handlers did not anticipate that they would be pulling this heavily from inventory at this time of the season. The weekly CME butter inventory numbers seem to bear this out. Last week, butter stocks declined by 8.7 million pounds, to stand at 131.9 million pounds. The weekly decline is the largest since November 2004. The decline in the last five weeks totals 25.7 million pounds, the most ever for late summer. Butter demand is seasonally steady as retailers and food service outlets make the transition from the summer vacation season to typical fall patterns. Food service orders are mixed as buyers assess inventories prior to the upcoming Labor Day holiday weekend, the unofficial close of the summer vacation period.

CHEESE: The cheese market is firm. Producers are having problems filling orders for provolone, pepper jack, Colby/jack, and in instances, fresh mozzarella. Cheese shipments from the West and Southwest continue to help offset reduced output in other areas. Manufacturing milk volumes are tight and depending on area, plant operators are often unable to acquire volumes needed to help fill orders. As schools reopen for the new year, increased Class I use will further reduce manufacturing milk supplies.

FLUID MILK: Milk production is rebounding after this summer's heat-stress declines, particularly in the Northern sections of the U.S. and California. Heavy milk shipments continue to occur into the Southeastern states to supplant supply deficiencies in the area. Demand for Class I milk is seasonally increasing throughout the U.S. as bottlers prepare for the resumption of school sessions. As a result of increased bottling activity, cream supplies are anticipated to increase. Labor Day holiday schedules coupled with reduced interest from ice cream facilities are also anticipated to encourage

higher cream volumes. Cream multiples are trending steady to somewhat lower. Condensed skim demand is strong.

DRY PRODUCTS: Dry products markets are trending firm. NDM prices are significantly higher, particularly in the Central and Eastern U.S. Production levels of NDM are beginning to rebound and as a result, buyer anxiety is easing. Limited spot trade activity is encouraging higher buttermilk prices. Production and supplies of buttermilk remain fairly light. Whey supplies are short of buyer interest, encouraging some buyers to pay significant premiums in the resale market. Whey export interest remains good. WPC prices are trending higher due to reduced production at some locations and lack of available substitutes for some end-users. The lactose market remains firm and prices are higher with heavy buyer inquiries for fourth quarter and 2007 contracts.

CCC: During the week of August 21 - 25, there was no activity under the dairy price support program.

DAIRY OUTLOOK (ERS): Milk production estimates were slightly reduced in August to 181.3 billion pounds, down 740 million pounds from July estimates. Unusually hot weather throughout most of the United States, but especially in California and the Southwest, has adversely affected milk production. This month's revision reduces the USDA estimate of annual milk per cow to 19,890 pounds for 2006 from 19,965 pounds in July. The weather impact on milk production combined with seasonality limits the amount of milk available for manufacturing purposes. Reduced milk production in the Southeast is encouraging milk imports from surrounding regions. Handlers are also filling pipelines for the beginning of the school year, adding to tightness from reduced production. The 2006 yearly average cheese price is projected to be \$1.22-\$1.24 per pound. The butter price should continue to strengthen for the remainder of 2006 and will likely average \$1.21-\$1.25 per pound for the year. The price forecast for NDM and whey are respectively expected to average 85.5-87.5 and 29.5-31.5 cents per pound for 2006.

JULY COLD STORAGE (NASS): On July 31, U.S. cold storage holdings of butter totaled 229.1 million pounds, 0.5% less than a month ago but 29.7% more than last year. Natural American cheese holdings total 599.1 million pounds, 0.2% more than a month ago but 0.7% lower than a year ago. End of July total cheese stocks were 887.4 million pounds, 2.8% higher than June and 6.0% more July 2005.

****SPECIALS THIS ISSUE****

SEPTEMBER FEDERAL MILK ORDER ADVANCE PRICES (PAGE 8)
 DAIRY OUTLOOK (PAGE 9)
 JULY COLD STORAGE (PAGES 10 - 11)

SEPTEMBER ANNOUNCED COOPERATIVE CLASS I PRICES (PAGE 12)
 DAIRY GRAPHS (PAGES 13 - 14)

**CHICAGO MERCANTILE EXCHANGE
 CASH TRADING**

PRODUCT	MONDAY AUGUST 21	TUESDAY AUGUST 22	WEDNESDAY AUGUST 23	THURSDAY AUGUST 24	FRIDAY AUGUST 25	WEEKLY CHANGE*	WEEKLY AVERAGE#
CHEESE							
BARRELS	\$1.2425 (N.C.)	\$1.2450 (+.0025)	\$1.2450 (N.C.)	\$1.2500 (+.0050)	\$1.2900 (+.0400)	(+.0475)	\$1.2545 (+.0360)
40# BLOCKS	\$1.2425 (+.0025)	\$1.2350 (-.0075)	\$1.2350 (N.C.)	\$1.2600 (+.0250)	\$1.2950 (+.0350)	(+.0550)	\$1.2535 (+.0310)
BUTTER							
GRADE AA	\$1.2800 (-.0050)	\$1.2950 (+.0150)	\$1.3150 (+.0200)	\$1.3150 (N.C.)	\$1.3550 (+.0400)	(+.0700)	\$1.3120 (+.0235)

CHEESE: carload = 40,000-44,000 lbs., BUTTER: carlot = 40,000-43,000 lbs. *Sum of daily changes. # Weekly averages are simple averages of the daily closing prices for the calendar week. Computed by Dairy Market News for informational purposes. This data is available on the Internet at WWW.AMS.USDA.GOV/MARKETNEWS.HTM NOTE: CME NDM on Page 2.

CHICAGO MERCANTILE EXCHANGE

MONDAY, AUGUST 21, 2006

CHEESE — SALES: NONE; BIDS UNFILLED: 1 CAR 40# BLOCKS @ \$1.2425; OFFERS UNCOVERED: NONE

BUTTER — SALES: 14 CARS GRADE AA: 12 @ \$1.2850, 1 @ \$1.2825, 1 @ \$1.2800; BIDS UNFILLED: 2 CARS GRADE AA: 1 @ \$1.2800, 1 @ \$1.2600; OFFERS UNCOVERED: 5 CARS GRADE AA: 2 @ \$1.2900, 2 @ \$1.2950, 1 @ \$1.3000

TUESDAY, AUGUST 22, 2006

CHEESE — SALES: 3 CARS BARRELS: 1 @ \$1.2600, 1 @ \$1.2425, 1 @ \$1.2450; 4 CARS 40# BLOCKS: 1 @ \$1.2325, 1 @ \$1.2425, 1 @ \$1.2300, 1 @ \$1.2350; BIDS UNFILLED: 2 CARS BARRELS @ \$1.2425; OFFERS UNCOVERED: 4 CARS 40# BLOCKS @ \$1.2400

BUTTER — SALES: 20 CARS GRADE AA: 1 @ \$1.2850, 1 @ \$1.2900, 1 @ \$1.2925, 8 @ \$1.2950, 1 @ \$1.2925, 2 @ \$1.2950, 2 @ \$1.2900, 1 @ \$1.2925, 3 @ \$1.2950; BIDS UNFILLED: NONE; OFFERS UNCOVERED: 3 CARS GRADE AA: 2 @ \$1.2975, 1 @ \$1.3000

WEDNESDAY, AUGUST 23, 2006

CHEESE — SALES: NONE; BIDS UNFILLED: 1 CAR BARRELS @ \$1.2450; OFFERS UNCOVERED: NONE

BUTTER — SALES: 14 CARS GRADE AA: 1 @ \$1.3000, 1 @ \$1.3050, 1 @ \$1.3075, 2 @ \$1.3100, 2 @ \$1.3125, 2 @ \$1.3150, 1 @ \$1.3175, 3 @ \$1.3150, 1 @ \$1.3125; BIDS UNFILLED: 3 CARS GRADE AA: 1 @ \$1.3150, 1 @ \$1.3025, 1 @ \$1.2500; OFFERS UNCOVERED: 4 CARS GRADE AA: 2 @ \$1.3200, 2 @ \$1.3500

THURSDAY, AUGUST 24, 2006

CHEESE — SALES: 4 CARS 40# BLOCKS: 1 @ \$1.2450, 3 @ \$1.2600; BIDS UNFILLED: 3 CARS BARRELS: 1 @ \$1.2500, 1 @ \$1.2450, 1 @ \$1.2300; 4 CARS 40# BLOCKS: 1 @ \$1.2600, 1 @ \$1.2400, 1 @ \$1.2325, 1 @ \$1.2300; OFFERS UNCOVERED: 1 CAR 40# BLOCKS @ \$1.2650

BUTTER — SALES: NONE; BIDS UNFILLED: 2 CARS GRADE AA @ \$1.3000; OFFERS UNCOVERED: 3 CARS GRADE AA: 1 @ \$1.3500, 2 @ \$1.4000

FRIDAY, AUGUST 25, 2006

CHEESE — SALES: 5 CARS 40# BLOCKS: 1 @ \$1.2800, 1 @ \$1.2850, 1 @ \$1.2875, 1 @ \$1.2900, 1 @ \$1.2950; BIDS UNFILLED: 7 CARS BARRELS: 1 @ \$1.2900, 1 @ \$1.2725, 1 @ \$1.2700, 2 @ \$1.2625, 2 @ \$1.2600; 5 CARS 40# BLOCKS: 1 @ \$1.2925, 2 @ \$1.2675, 2 @ \$1.2600; OFFERS UNCOVERED: 2 CARS 40# BLOCKS: 1 @ \$1.3000, 1 @ \$1.3050

BUTTER — SALES: 13 CARS GRADE AA: 1 @ \$1.3300, 1 @ \$1.3400, 2 @ \$1.3500, 1 @ \$1.3600, 4 @ \$1.3625, 1 @ \$1.3600, 2 @ \$1.3575, 1 @ \$1.3600; BIDS UNFILLED: 10 CARS GRADE AA: 2 @ \$1.3350, 2 @ \$1.3250, 4 @ \$1.3200, 2 @ \$1.3150; OFFERS UNCOVERED: 1 CAR GRADE AA @ \$1.3550

CME CASH NONFAT DRY MILK: Extra Grade closed the week at \$0.9000 and Grade A at \$0.9000. (The last price change for Extra Grade and Grade A was on August 9, 2006.) The weekly average for Extra Grade is \$0.9000 (N.C.) and Grade A is \$0.9000 (N.C.).

BUTTER MARKETS

JUNE COLD STORAGE

According to NASS, June month-ending cold storage figures for butter total 228.6 million pounds, 27.0% more than last June but 1.0% lower than May 2006.

NORTHEAST

Butter markets remain firm. The CME cash butter price continues to adjust higher and lower, but maintaining higher than anticipated price levels. Cream supplies remain tight. In most instances, Eastern butter producers are not getting any extra cream for churning purposes. Most are limited to internally generated cream supplies. For those that are able to generate cream volumes within their own organization, holding on to these volumes for churning is quite difficult. Often, willingness on the part of the cream buyers to purchase these cream volumes is hard to resist, thus churning of fresh butter suffers. Fresh butter supplies are in short supply, thus many orders are being filled from inventoried stock. Most producers anticipated that they would need to pull some butter from frozen stocks, but did not anticipate pulling this heavily. Butter demand is seasonally fair. Retail orders are picking up somewhat as retailers prepare for the end of the summer vacation season and the beginning of more at home eating patterns as schools resume classes and eating patterns return to a more seasonal schedule. Food service orders are somewhat heavier as resort and vacation areas prepare for the upcoming Labor Day holiday weekend and the close of the summer vacation season. Sale of bulk butter f.o.b East are reported in a range from flat market to 3.0 cents over the CME price/average.

CENTRAL

The butter market remains firm as the midweek CME cash price surpassed the \$1.3000 level for the first time since late January. The Wednesday close of \$1.3150 has many producers and handlers questioning when and where this price will settle. During cash trading thus far this week, 48 cars of AA butter have been sold with unfilled bids left on the board. Churning activity is lower at most

operations as cream supplies are tight. Often, butter handlers are reaching to the CME for butter supplies versus dipping into inventories any heavier. In most instances, current churning activity is not keeping pace with demand. Butter demand is seasonally fair. Retail orders are steady, occasionally heavier when featured. Some retail features are scheduled for the near future as at home eating patterns will become more structured as summer vacations end and students return to classes. Food service orders are somewhat stronger as resort and vacation areas prepare for the upcoming Labor Day holiday weekend, the unofficial close of the summer vacation season. Bulk butter for spot sale is being reported in the flat – 2 cents per pound over various pricing basis.

WEST

Butter prices continue to move higher and lower from one trading session to the next on the cash CME market, but the trend is higher. Prices closed at midweek at \$1.3150 and they have not been that high since January. The trading activity has also been moderately heavy with 43 cars sold last week and 48 sold through midweek this week. The market situation has been consistent for the past few weeks. Cream has been very expensive and hard to find. Churning is limited by the tight cream supply situation and the fact that many churns are selling cream and buying butter or taking it back out of storage. The weekly CME butter inventory numbers seem to bear this out. Last week, stocks declined by 8.7 million pounds, to stand at 131.9 million pounds. The weekly decline is the largest since the fall of 2004. The decline in the last five weeks totals 25.7 million pounds, the most ever for this time of the year. According to the *Cold Storage* report, butter stocks at the end of July total 229.1 million pounds, up 30% from a year ago or 52.5 million pounds. Stocks did decline 1.3 million pounds during July which is normal. Prices for bulk butter range from flat market to 3 cents under based on the CME with various time frames and averages.

NASS DAIRY PRODUCT PRICES

U.S. AVERAGES AND TOTAL POUNDS

	CHEESE				
	40# BLOCKS	BARRELS	NDM	BUTTER	DRY WHEY
		38% MOISTURE			
WEEK ENDING					
AUGUST 19	1.1717	1.1712	0.8463	1.2212	0.2983
	7,650,778	9,337,998	19,438,589	4,303,652	11,887,842

Further data and revisions may be found on the internet at: <http://jan.mannlib.cornell.edu/reports/nassr/price/dairy>

NORTHEAST

CHEESE MARKETS

WEST

Wholesale prices are higher except on Swiss. Customers are starting to change orders to reflect early fall/school products. Orders from food service accounts in summer vacation areas are winding down as Labor Day weekend nears. Current cheese production remains seasonally light due to limited milk supplies for cheese production and continued strong fluid demand from bottlers, at least those located in the Southeast.

WHOLESALE SELLING PRICES: DELIVERED,
DOLLARS PER POUND (1000 - 5000 POUNDS MIXED LOTS)

Cheddar 10# Prints	:	1.3075-1.8275
Cheddar Single Daisies	:	1.2650-1.7500
Cheddar 40# Block	:	1.3625-1.6375
Process 5# Loaf	:	1.4275-1.6675
Process 5# Sliced	:	1.4425-1.7525
Muenster	:	1.3800-1.5800
Grade A Swiss Cuts 10 - 14#	:	2.4500-2.6500

MIDWEST

The cheese market is unsettled, though with a firm undertone. Recent price increases have attracted the attention of buyers preparing for fall needs. Interest rates have climbed, but cheese prices are over 20 cents below year ago levels, reducing down side risk for buyers. A poor financial year for most cheese makers also limits their ability to hold "spec" loads or purchase cushion loads at the Chicago Mercantile Exchange. Producers are having problems filling orders for varieties such as provolone, pepper jack, and colby/jack. Tightness is also noted for fresh mozzarella. Deliveries are being delayed and/or shorted. Process interest is moderate, aided in instances by government contracts. Shred interest remains strong. With many upper Midwest schools set to reopen in September, the pull from regional bottlers may be lighter than normal for mid-August, providing milk for a temporary increase in cheese production. Also, many plant operators have noticed intakes have recently rebounded from earlier in the month and cheese yields have also improved. Spot milk supplies to bolster cheese production remain limited.

WISCONSIN WHOLESALE SELLING PRICES: DELIVERED,
DOLLARS PER POUND (1000 - 5000 POUNDS MIXED LOTS)

Process American 5# Loaf	:	1.4875-1.6800
Brick And/Or Muenster 5#	:	1.7000-1.8025
Cheddar 40# Block	:	1.5700-2.2650
Monterey Jack 10#	:	1.7000-2.2650
Blue 5#	:	2.1075-2.3800
Mozzarella 5 - 6# (Low Moisture, Part Skim)	:	1.4325-2.3650
Grade A Swiss Cuts 6 - 9#	:	2.1550-2.8300

WEEKLY COLD STORAGE HOLDINGS-SELECTED STORAGE CENTERS
IN THOUSAND POUNDS - INCLUDING GOVERNMENT STOCKS

BUTTER : CHEESE

08/21/06	47,567	:	137,204
08/01/06	53,908	:	137,815
CHANGE	-6,341	:	-611
% CHANGE	-12	:	N.C.

Block cheese prices at the cash CME market moved moderately higher before the release of the milk production report last week. Since the report, they have gyrated somewhat, but generally closed lower. At midweek, the price was \$1.2350. Demand for top quality block cheese is consistent and supplies are adequate for the current interest. Discounts are not available at this time. Interest in undergrade cheese is not as aggressive as a few weeks ago. Barrel demand is steady with offerings adequate. Mozzarella interest is picking up seasonally, but stocks are more than adequate with some of it having quite a bit of age. Swiss sales are steady with more undergrade appearing on the market. *Cold Storage* stocks of American cheese at the end of July total 599.1 million pounds, below the level of the previous year for the first time in 2006. The average increase during July for the last few years has been more than 16 million pounds compared to less than 1 million pounds this year. Other natural cheese grew by 10% during the month or an increase of 21.9 million pounds. Total cheese in storage at the end of July totals 887.4 million pounds, an increase of 6% from last year or 50.2 million pounds. Swiss stocks total 36.6 million pounds, up 63% or 14.1 million pounds from July 2005.

WHOLESALE SELLING PRICES: DELIVERED, DOLLARS PER POUND
(1000 - 5000 POUNDS MIXED LOTS)

Process 5# Loaf	:	1.3700-1.6275
Cheddar 40# Block	:	1.3400-1.6925
Cheddar 10# Cuts	:	1.5200-1.7400
Monterey Jack 10#	:	1.5300-1.6900
Grade A Swiss Cuts 6 - 9#	:	2.3500-2.7000

FOREIGN

Domestic prices are higher and imported are unchanged. Demand is just starting to pick up seasonally as fall approaches. Current supplies are adequate for needs, though replacement prices are generally higher due to increases in the transportation cost.

WHOLESALE SELLING PRICES: FOB DISTRIBUTORS DOCK
DOLLARS PER POUND (1000 - 5000 POUNDS, MIXED LOTS)

VARIETY	NEW YORK	
	IMPORTED	DOMESTIC
Roquefort	TFEWR	-0-
Blue	2.6400-4.4800	1.6275-3.1150*
Gorgonzola	3.6900-5.9900	2.1300-2.4900*
Parmesan (Italy)	TFEWR	3.0350-3.1400*
Romano (Italy)	2.1000-3.2900	-0-
Provolone (Italy)	3.4400-6.0900	1.6200-1.8575*
Romano (Cows Milk)	-0-	2.7875-4.9300
Sardo Romano (Argentina)	2.8500-3.2900	-0-
Reggianito (Argentina)	2.6900-3.2900	-0-
Jarlsberg-(Brand)	3.1200-4.1500	-0-
Swiss Cuts Switzerland	-0-	2.4500-2.6500
Swiss Cuts Finnish	2.5900-2.8500	-0-
Swiss Cuts Austrian	TFEWR	-0-
Edam	:	:
2 Pound	TFEWR	-0-
4 Pound	TFEWR	-0-
Gouda, Large	TFEWR	-0-
Gouda, Baby (\$/Dozen)	:	:
10 Ounce	27.8000-31.7000	-0-

* = Price change.

FLUID MILK AND CREAM

E A S T

Spot shipments of Grade A milk into or out of Florida and other Southeastern states

	THIS WEEK		LAST WEEK		LAST YEAR	
	IN	OUT	IN	OUT	IN	OUT
FLORIDA	287	0	238	0	226	0
SOUTHEAST STATES	126	0	126	0	91	0

July milk production in the 23 major states during the month totaled 13.9 billion pounds, up 1.5% from July 2005. The following are the July 2006 compared to July 2005 changes for various states: FL -2.8%, KY -8.8%, NY 0.3%, PA -0.4%, VT -3.1%, and VA unchanged. Milk production throughout most areas of the East continues to edge lower seasonally, but more reports of recovery from the recent sharp declines are occurring. Milk handlers state that temperatures have moderated and are quite typical for this time of the season. Some handlers feel that weather patterns will continue to be a major factor in milk volumes as the fall nears. Lack of moisture in some areas is causing milk producers concern as crops are suffering at a time when moisture is greatly needed. Grain crops are not looking as favorable as they did earlier in the season and forage crops are often not yielding at desired levels. As milk production declines, demand for milk is increasing. Class I demand is strong, especially in the Southeast, as more schools resume classes, and bottlers continue to fill bottling pipelines. Milk handlers in the region feel that by weeks end, most bottling pipelines will be filled, thus milk management will be in better balance for the near term. During the week, Florida imports totaled 287 loads of milk compared to 238 last week and 226 last year. Southeastern imports are also heavy as milk production declines and sales remain strong. As schools resume classes, reports of retail feature activity are noted. In various markets where a gallon of milk is priced at \$3.50 or higher, a current feature of 2 gallons for \$5.00 is occurring. This feature is expected to clear large volumes of bottled milk. Condensed skim markets remain firm and demand is strong. Cream markets are also firm, but cream handlers and traders indicate that pricing multiples are declining. Although pricing multiples are declining, overall cream prices remain high due to the various firm pricing bases. Cream handlers state that cream demand was lighter earlier in the week, thus spot availability was reported. By midweek, demand resumed and spot availability disappeared quickly. Many cream handlers and traders feel that for the near term (through the Labor Day holiday weekend) cream prices might continue to edge lower. Some report that hard ice cream production appears to be edging lower, thus the heavy clearance of cream to this need is available to other Class II products and occasionally to Class IV buyers.

FLUID CREAM AND CONDENSED SKIM PRICES IN TANKLOT QUANTITIES

SPOT PRICES OF CLASS II CREAM, \$ PER LB BUTTERFAT

F.O.B. PRODUCING PLANTS: NORTHEAST	-	2.0616-2.2549
DELIVERED EQUIVALENT: ATLANTA	-	2.1260-2.2935 M 2.1904-2.2549
F.O.B. PRODUCING PLANTS: UPPER MIDWEST	-	1.7781-2.1518

PRICES OF CONDENSED SKIM, DOLLARS PER LB. SOLIDS,

F.O.B. PRODUCING PLANTS:	
NORTHEAST - CLASS II - INCLUDES MONTHLY FORMULA PRICES	- .8975-.9700
NORTHEAST - CLASS III - SPOT PRICES	- .8900-.9500

M I D W E S T

Class I sales are steady to slightly improved where bottlers are starting to gear up production for anticipated school needs. Many schools reopen after Labor Day in upper tier states. Fluid shipments from the region continue heavy into the Southeast. The good fluid interest from the Southeast and the large new manufacturing facility are keeping supplies tight through much of the southern part of the region. Milk supplies remain very tight and there were not enough reports of spot manufacturing milk sales to report a range. A couple comments indicate manufacturing milk premiums were fully steady to higher. Most interest in purchasing extra milk is going unfilled. Cream supplies remain very tight though users are expecting volumes to loosen by Labor Day weekend as bottlers generate more standardized cream from heavier school milk bottling. Churning remains seasonally light and generally limited to just covering the shorter shelf life unsalted butter needs. Cream demand is good from cream cheese and unchanged to seasonally lighter from ice cream accounts. Finding trucks/truckers to move supplies remains an issue. Near ideal summer weather for milk production continues through much of the upper half of the region. Milk intakes continue to slowly rebound from heat stressed levels early in the month and some plant operators are seeing just a slight improvement in manufactured

product yields. Fall harvest season is rapidly approaching with expected yields depending on location and summer precipitation levels.

WISCONSIN LIVESTOCK AUCTIONS (PER CWT.)

	AUGUST 17 - 23	PREVIOUS YEAR
SLAUGHTER COWS	\$ 47.00- 53.00	\$ 49.00- 54.00
REPLACEMENT HEIFER CALVES	\$400.00-650.00	\$300.00-700.00

SOUTH ST. PAUL TERMINAL AUCTION MARKET (PER CWT.)

	AUGUST 17 - 23	PREVIOUS YEAR
SLAUGHTER COWS	\$ 44.00- 54.00	\$ 46.00- 56.50

W E S T

Alfalfa hay production as forecast for August 1 by NASS indicates that U.S. output totals 71.21 million tons, down 6.0% from last year. Output with changes for selected Western states with a comparison to last year is as follows: Arizona 2.18 million tons, -0.4%; California 7.10 million tons, +2.9%; Colorado 2.46 million tons, -16.8%; Idaho 4.99 million tons, +4.2%; Nevada 1.30 million tons, +3.8%; New Mexico 1.10 million tons, -10.1%; Oregon 1.89 million tons, +7.5%; Utah 2.27 million tons, +1.9%; and Washington 2.07 million tons, -11.5%. Milk production in the 23 states for July totals 13.9 billion pounds, up 1.5% from last year. Cow numbers grew by 107,000 head from last year, but declined by 11,000 head from June for these surveyed states. Cow numbers in the seven Western states grew by 86,000 head from June, which was 24,000 head less than the growth rate in the previous month. The biggest change, as was expected due to the extreme heat stress, was in cow numbers for California. The herd in California actually declined from June to July by 12,000 head. This is probably the first monthly decline in California in about ten years. With this slowing growth rate, California output in July actually went down 0.3%. Other states in the survey and their change from last year are as follows: Arizona +1.7%, Colorado +6.8%, Idaho +6.4%, New Mexico +12.6%, Oregon -3.5%, and Washington -4.3%. CALIFORNIA milk production has rebounded to levels at or near those experienced before the heat wave in July. Contacts in both the production and processing sectors are surprised that, despite the loss of cows and the stress, milk has returned to the extent it has. Additional cows are freshening and this is adding to the milk totals. There are replacement animals available. The feed situation has not changed much in recent weeks. Hay is of less than desired quality and higher than desired prices from a dairy producer standpoint. Processing plants have returned to projected schedules for the most part with the exception of nonfat dry milk dryers. They seem to be the last avenue for additional milk, which has tightened the supply of NDM. Bottling milk demand is mixed and depending on the area. Many schools and colleges have started and those regions are seeing level to lighter fluid demand. Other areas with school just starting or soon to start are seeing increased fluid demand as pipelines are filled. NEW MEXICO milk output is often lower this week. Recent heavy rains and wet conditions have impacted the milk cows. Several areas have had daily rains with substantial totals. Lots are wet and have little opportunity to dry out. Milk shipments to local balancing plants have slowed. Demand for bottling milk has improved as school needs are being filled. The Western CREAM situation remains on the tight side. Pricing levels have moved higher from last week, but there are indications of the market cooling. Buyers are not as aggressive as in recent weeks on the spot market. Additional loads of cream are being offered as milk and cream supplies increase. Demand from ice cream producers has eased this week. The CME butter price fluctuation continues, with the close at \$1.3150 on Wednesday, August 23, a 3.25 cent increase over a week ago. Cream multiples are mostly steady in the 120 to 150 range, FOB, and vary depending on class usage and basing points. Trades at the upper end have slowed. Transportation costs continue to be a big factor in shipping cream to other regions. Milk supplies are being called flat over much of the PACIFIC NORTHWEST. Good rebounds have been noted from the heat reduced volumes of a few weeks ago. Some reports of fat and protein tests still lagging are coming in from more easterly portions of the region. Schools will begin taking additional volumes of fluid milk shortly and that will impact manufacturing runs. It should, however, mean that more cream becomes available as bottlers standardize the milk down to lower fat tests. Herds that rely on pastures for much of their feed have to do a lot more supplemental feeding because of very dry pasture conditions. Days remain quite warm in northern UTAH and southern IDAHO, but the nights are cooling off enough to ease any short term stress that is noted. Milk supplies are good for this time of year. Tests are on the low side of anticipated levels, but they are rebounding slowly. Heifer prices have rebounded over the past few weeks to gain back more than \$100 to stand at \$1810 on average. Hay prices are generally steady in the region at levels somewhat above last year. Prices may move higher at the end of the season because some buyers are not well covered with dairy hay and there may be more competition for offerings than was anticipated.

NDM, BUTTERMILK & WHOLE MILK

Prices represent carlot/trucklot quantities for domestic and export sales packaged in 25 kg. or 50 lb. bags, or totes, spray process, dollars per pound.

NONFAT DRY MILK - CENTRAL AND EAST

CENTRAL: Prices are higher on a firm market. Production levels are seasonally reduced as more milk clears into Class I facilities in preparation for school schedules. Production levels are however improved compared to the week prior. As a result, a few spot loads produced are actively trading at the higher side of the range. Most direct manufacturer trade remains contractual with some end-users and brokers being shorted on their loads. Although contractual movement is delayed, some buyers report that the number of loads that they are owed is reduced compared to the week prior. Resale trade was reported as high as \$1.07 at the beginning of the week with lower offering prices noted at the end of the week. Interest in obtaining government NDM supplies is beginning to wane. Some buyers lament that by the time government supplies would be offered to the trade, the market will have already stabilized. High heat supplies are tight with very little availability for spot trade.

EAST: Prices are unchanged to lower on a firm market. Premiums are reduced compared to the week prior. Production has been down at some plants for the last 6 weeks with no changes anticipated during the next month. Some brokers that are unable to receive delivery on their contractual loads are being offered spot loads near the high side of the range. Brokers are generally not interested in paying significant premiums for product that should be delivered on contracts. The heavy anxiety in response to tight NDM supplies is dissipating as buyers with the greatest needs are being delivered loads either via resellers or as suppliers slowly replenish contractual supply deficits. Traders report uncertainty as to whether current supply shortages will carry for more than a month. To supplant supply deficiencies, offers from the West are noted at significant premiums. Some buyers are seeking contracts for 2007. High heat is tight for the good interest.

F.O.B. CENTRAL/EAST: Includes EXTRA GRADE and GRADE A
 LOW/MEDIUMHEAT: .8625 - 1.1000 MOSTLY: .9200 - 1.1000
 HIGHHEAT: .8975 - 1.2000

NONFAT DRY MILK - WEST

Western low/medium heat prices are trending higher in light trading. The market tone is firm. The effects of reduced NDM drying over the heat spell in the West linger. NDM production was reduced and producers fell behind on their contract shipments and they are still playing catch-up. Milk and NDM production have returned to pre-heat levels in many locations, but past orders need to be filled. The panic to find additional loads in the resale channels seems to have eased. Buyers appear to be less willing to bid top dollar to secure loads and more willing to wait for loads. Sales to the support program have ceased and many in the trade do not expect offerings to be made any more this calendar year. Western high heat prices continue to trend higher. Pricing levels are moving to reflect recent increases in low heat prices and recent movements in pricing indexes. Some seasonal accounts are beginning to pull additional loads. Producers' stocks are light.

F.O.B. WEST: Includes EXTRA GRADE and GRADE A
 LOW/MEDIUMHEAT: .8100 - 1.0500 MOSTLY: .8525 - .9500
 HIGHHEAT: .8550 - .9500

CALIFORNIA MANUFACTURING PLANTS - NDM

WEEK ENDING	PRICE	TOTAL SALES	SALES TO CCC
August 18	\$.8334	11,852,269	0
August 11	\$.8371	6,345,531	0

Prices are weighted averages for Extra Grade and Grade A Nonfat Dry Milk, f.o.b. California manufacturing plants. Prices for both periods were influenced by effects of long-term contract sales. Total sales (pounds) include sales to CCC. Compiled by Dairy Marketing Branch, California Department of Food and Agriculture.

DRY BUTTERMILK - CENTRAL

Prices are higher on a firm market. Cream intakes at most churns are reduced, resulting in lower supplies of condensed buttermilk. Contractual use of condensed buttermilk is steady. As a result, production of dry buttermilk is very light. Producers are holding dry buttermilk stocks with confidence. Aggressive demand from a few buyers is encouraging prices to move higher. Producers are also encouraged to move prices higher in light of recent price increases in the NDM market. Most movement of dry buttermilk remains contractual.

F.O.B. CENTRAL: .9900 - 1.0500

DRY BUTTERMILK - NORTHEAST AND SOUTHEAST

Prices are unchanged to higher on a firm market. Churn activity is extremely light deterring any increased production of dry buttermilk. Producers' stocks are reportedly adequate to handle contractual demand. Spot supplies are not anticipated to become available until after the Thanksgiving holiday.

F.O.B. NORTHEAST: .8900 - .9100
 DELVD SOUTHEAST: .9100 - .9300

DRY BUTTERMILK - WEST

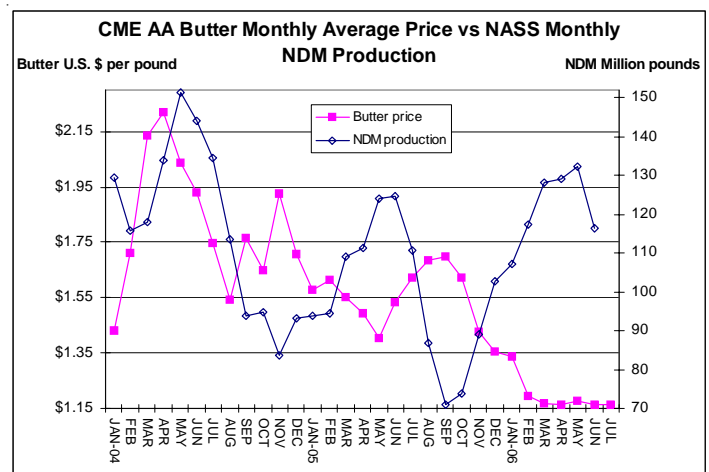
Western dry buttermilk prices continue to trend higher. The market undertone remains firm. Production schedules are beginning to increase as cream returns to butter production with milk volumes moving higher. Offerings remain on the light side with most stock committed. Spot demand is limited.

F.O.B. WEST: .7600 - .9000 MOSTLY: .8300 - .8700

DRY WHOLE MILK - NATIONAL

Dry whole milk prices are higher. The market tone remains firm. The whole milk market price is being moved higher to reflect higher values for both the solids and fat portions of the milk. Nonfat dry milk price have moved sharply higher and cream and butter prices have increased in recent weeks. Drying schedules for dry whole milk have been reduced. Stocks are light and at times being juggled to cover accounts.

F.O.B. PRODUCING PLANT: 1.2500 - 1.3200



WHEY, CASEIN & EVAPORATED MILK

Prices represent carlot/trucklot quantities for domestic and export sales packaged in 25 kg. or 50 lb. bags, or totes, spray process, dollars per pound.

DRY WHEY - CENTRAL

Prices are higher on a firm market. Producer plants have limited spot load availability, mostly due to reduced production as milk is directed into Class I instead of Class III facilities. Some delays are noted on contractual shipments. Buyers that are unable to garner loads direct from the manufacturer are being forced to pay premiums of 3-4 cents in the resale market. Some traders report that the level of interest in whey is often skewed by one buyer contacting multiple traders who then make multiple requests to variant suppliers and resellers. Supplies of feed grade whey are limited for the good interest. Should supply availability cease direct from the manufacturer, whey markets are likely to remain stagnant.

F.O.B. CENTRAL: .3100 - .3300 MOSTLY: .3100 - .3250
F.O.B. CENTRAL: ANIMAL FEED MILK REPLACER: .3000 - .3200

DRY WHEY - NORTHEAST AND SOUTHEAST

Prices are unchanged to higher on a firm market. Due to reduced milk intakes at some locations, production of whey is lower and contractual shipments of whey are being shorted or delayed. As a result, some buyers and brokers are garnering spot loads of whey from resellers at significant premiums. Buyers requiring supplies from specific producers are paying the highest premiums. End-user interest is good from ice cream facilities and bakeries. Traders speculate that supply shortages will not last more than a month whereas producers indicate that a longer time frame may be required.

F.O.B. NORTHEAST: EXTRA GRADE AND GRADE A: .3125 - .3250
DELVD SOUTHEAST: .3325 - .3450

DRY WHEY - WEST

Western whey prices range from steady to higher with a firming undertone. Export activity is very good for this time of year. European whey prices continue to increase and offerings are limited. Domestic interest is improving seasonally and offerings are not always keeping pace. Some shipment schedules are being delayed for a few days which gives the market some further strength. Whey stocks range from balanced to tight. Whey output had bounced back from the heat stress of midsummer, but production now seems to be trailing again.

NONHYGROSCOPIC: .2725 - .3400 MOSTLY: .3000 - .3200

WHEY PROTEIN CONCENTRATE - CENTRAL AND WEST

Prices are unchanged to higher on a firm market. Supplies of Extra Grade WPC 34% are tighter than the week prior, encouraging higher offering prices. Due to the limited access of Extra Grade whey, some feed users prefer to purchase WPC 34% compared to WPC 80%. In addition, demand for WPC 80% is good, particularly into the food sector, reducing supplies of WPC 80% as a substitute to WPC 34%. Production of WPC 34% is steady to lower due to mechanical problems at some plants and reduced milk intakes at other locations. Supplies of off grade or low protein WPC are available to the trade for the fairly good interest.

F.O.B. EXTRA GRADE 34% PROTEIN: .6000 - .6600 MOSTLY: .6100 - .6300

LACTOSE - CENTRAL AND WEST

Prices are unchanged to higher on a firm market. Spot load availability remains very light. Production is unchanged to lower due to mechanical problems at some locations and reduced milk intakes at other locations. As a result, some suppliers have to delay or short contractual orders until production levels return to normal. Inquiries are noted from domestic and foreign consumers on contractual deals for fourth quarter and 2007. Some plants have significantly reduced the amount of contracts negotiated due to supply insufficiencies. In general, most suppliers will not commence negotiations for upcoming terms until late September. Feed grade supplies are short of buyer interest and trading within the mostly range.

Including spot sales and up to 3 month contracts. Mesh size 30 - 100.
F.O.B. EDIBLE: .2775 - .4100 MOSTLY: .3100 - .3800

CASEIN - NATIONAL

Casein markets are steady to weaker as prices are unchanged to slightly lower. Producers and handlers indicate that buyer interest has slowed and prices for available product are lower. Some feel that prices around current levels will prevail for the balance of the calendar year and will probably carry into 2007. Stocks appear to be available for both rennet and acid needs, with acid volumes in greatest need. Rennet demand is lower as natural cheese prices are low enough to not encourage significant analog cheese production. Oceania milk and casein production will be increasing soon, thus new product will be available. At this time, Oceania orders are being filled from inventoried stock which is nearly depleted. European production during the current season is lower than recent years, but sufficient to maintain scheduled shipments.

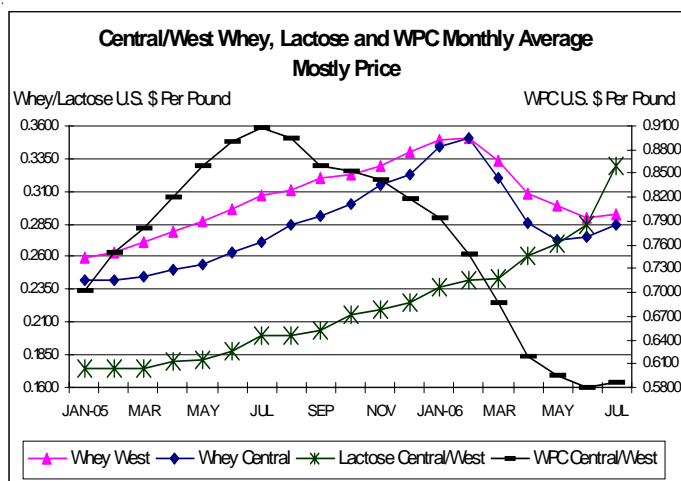
SPOT SALES AND UP TO 3 MONTH CONTRACTS. PRICES ARE F.O.B., U.S. WAREHOUSE FOR EDIBLE NONRESTRICTED AND VARY ACCORDING TO MESH SIZE AND QUALITY.

RENNET: 2.9500 - 3.0000
ACID: 3.0000 - 3.0500

EVAPORATED MILK - NATIONAL

Prices continue unchanged as movement persists on a contractual basis. Production is unchanged to seasonally lower in response to Class I interest.

DOLLARS PER 48 - 12 FLUID OUNCE CANS PER CASE DELIVERED MAJOR U.S. CITIES \$21.20 - 36.00
Excluding promotional and other sales allowances. Included new price announcements.



CCC PURCHASES OF DAIRY PRODUCTS (POUNDS)

	FOR THE WEEK OF AUGUST 21 - 25, 2006			CUMULATIVE TOTALS		UNCOMMITTED INVENTORIES	
	TOTAL PURCHASES	CONTRACT ADJUSTMENTS	ADJUSTED PURCHASES	SINCE 10/01/05	SAME PERIOD LAST YEAR	WEEK ENDING 08/18/06	SAME PERIOD LAST YEAR
BUTTER							
Bulk	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Packaged	-0-	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-	-0-
CHEESE							
Block	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Barrel	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Process	-0-	-0-	-0-	198,000	-0-	-0-	-0-
TOTAL	-0-	-0-	-0-	198,000	-0-	-0-	-0-
NONFAT DRY MILK							
Nonfortified	-0-	-0-	-0-	63,991,990	31,817,269	-0-	-0-
Fortified	-0-	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	-0-	-0-	-0-	63,991,990	31,817,269	-0-	-0-

MILK EQUIVALENT, FAT SOLIDS BASIS, OF ADJUSTED PURCHASES (MILLION POUNDS)

	MILKFAT* BASIS	SKIM** SOLIDS		MILKFAT* BASIS	SKIM** SOLIDS
WEEK OF AUGUST 21-25, 2006 =	0.0	0.0	COMPARABLE PERIOD IN 2005 =	0.0	0.0
CUMULATIVE SINCE OCTOBER 1, 2005 =	15.9	746.8	CUMULATIVE SAME PERIOD LAST YEAR =	7.0	370.4
CUMULATIVE JAN. 1 - AUG. 25, 2006 =	15.9	746.8	COMPARABLE CALENDAR YEAR 2005 =	0.0	0.0

* Factors used for Fat Solids Basis - Butter times 21.80; Cheese times 9.23; and Nonfat Dry Milk times 0.22

**Factors used for Skim Solids Basis - Butter times 0.12; Cheese times 9.90; and Nonfat Dry Milk times 11.64

CCC ADJUSTED PURCHASES FOR THE WEEK OF AUGUST 21 - 25, 2006 (POUNDS)

REGION	BUTTER			CHEESE			NONFAT DRY MILK	
	BULK	PACKAGED	UNSALTED	BLOCK	BARREL	PROCESS	NONFORTIFIED	FORTIFIED
CENTRAL	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
WEST	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
EAST	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-

CCC ADJUSTED PURCHASES SINCE 10/1/05 AND SAME PERIOD LAST YEAR (POUNDS) AND MILK EQUIVALENT AS A PERCENT OF TOTAL

REGION	BUTTER		CHEESE		NONFAT DRY MILK		MILK EQUIVALENT (%)	
	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05
CENTRAL	-0-	-0-	198,000	-0-	1,364,259	1,331,567	13.4	4.2
WEST	-0-	-0-	-0-	-0-	60,223,255	29,415,099	83.3	92.4
EAST	-0-	-0-	-0-	-0-	2,404,476	1,070,603	3.3	3.4
TOTAL	-0-	-0-	198,000	-0-	63,991,990	31,817,269	100.0	100.0

SUPPORT PURCHASE PRICES FOR DAIRY PRODUCTS PRODUCED ON OR AFTER NOVEMBER 15, 2002

MANUFACTURING MILK Average Test 3.67% - \$9.90 per cwt.

BUTTER Bulk \$1.0500 per pound; 1# Prints \$1.0850

CHEESE 40 & 60# Blocks \$1.1314 per pound; 500# Barrels \$1.1014; Process American 5# \$1.1889; Process Am. 2# \$1.2289

NONFAT DRY MILK Nonfortified \$.8000 per pound; Fortified \$.8100; Instant \$0.9625

U.S. Dairy & Total Cow Slaughter under Federal Inspection, by Regions, for Week Ending 08/05/06 & Comparable Week 2005

Regions* (000 HEAD)	1	2	3	4	5	6	7	8	9	10	U.S. TOTAL		% DAIRY OF ALL	
											WEEK	SINCE JAN 1	WEEK	SINCE JAN 1
2006-Dairy	N.A.	0.5	5.5	2.5	14.0	2.5	0.3	N.A.	14.6	1.7	42.9	1,354.8	42.0	44.3
2005-Dairy	N.A.	0.6	5.9	2.2	12.2	2.4	0.5	N.A.	12.5	1.6	38.7	1,345.5	48.8	47.1
2006-All cows	N.A.	0.5	6.9	12.2	25.4	21.0	13.4	N.A.	17.0	2.4	102.1	3,061.1		
2005-All cows	N.A.	0.6	7.3	10.4	22.6	11.4	8.3	N.A.	14.5	1.9	79.3	2,852.2		

SOURCE: The slaughter data are gathered and tabulated in a cooperative effort by the Agricultural Marketing Service, The Food Safety and Inspection Service, and the National Agricultural Statistics Service, all of USDA.

CLASS III MILK PRICES, (3.5% BF)

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2002	11.87	11.63	10.65	10.85	10.82	10.09	9.33	9.54	9.92	10.72	9.84	9.74
2003	9.78	9.66	9.11	9.41	9.71	9.75	11.78	13.80	14.30	14.39	13.47	11.87
2004	11.61	11.89	14.49	19.66	20.58	17.68	14.85	14.04	14.72	14.16	14.89	16.14
2005	14.14	14.70	14.08	14.61	13.77	13.92	14.35	13.60	14.30	14.35	13.35	13.37

FEDERAL MILK ORDER CLASS PRICES FOR 2006 (3.5% BF)

CLASS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
I 1/	13.38	13.38	12.49	11.22	10.97	10.75	11.34	10.97	10.85			
II	13.25	12.62	11.69	11.37	11.13	11.00	10.83					
III	13.39	12.20	11.11	10.93	10.83	11.29	10.92					
IV	12.20	11.10	10.68	10.36	10.33	10.22	10.21					

1/ Specific order differentials to be added to this base price are located at www.ams.usda.gov/dyfm05/mib/cls_prod_cmp_pr.htm

FEDERAL MILK ORDER ADVANCE PRICES, SEPTEMBER

Class I Base Price. Under the Federal milk order pricing system, the Class I base price for September 2006 is \$10.85 per cwt. This price is derived from the advanced Class III skim milk pricing factor of \$6.64 and the advanced butterfat pricing factor of \$1.2703. A Class I differential for each order's principal pricing point (county) is added to the base price to determine the Class I price. **Comparison to Previous Month.** Compared to August 2006, the Class I base price decreased \$0.12 per cwt. For selected consumer products, the price changes are: whole milk (3.25% milk fat), -\$0.13 per cwt., -\$0.011 per gallon; reduced fat milk (2%), - \$0.20 per cwt., - \$0.017 per gallon; fat-free (skim milk), - \$0.29 per cwt., \$0.025 per gallon. **Class II Price Information.** The advanced Class IV skim milk pricing factor is \$6.29. Thus, the Class II skim milk price for September is \$6.99 per cwt., and the Class II nonfat solids price is \$0.7767. **Product Price Averages.** The two-week product price averages for September are: butter \$1.1736, nonfat dry milk \$0.8463, cheese \$1.1633, and dry whey \$0.2925.

FEDERAL MILK ORDER CLASS I PRICE INFORMATION <u>1/</u> <u>2/</u>				
Federal Milk Order Marketing Area <u>3/</u>	Order Number	SEPTEMBER 2006		
		Class I Price (3.5 %)	Class I Skim Milk Price	Class I Butterfat Price
		<u>\$ per cwt.</u>	<u>\$ per cwt.</u>	<u>\$ per pound</u>
Northeast (Boston) <u>4/</u>	001	14.10	9.89	1.3028
Appalachian (Charlotte) <u>5/</u>	005	13.95	9.74	1.3013
Southeast (Atlanta) <u>6/</u>	007	13.95	9.74	1.3013
Florida (Tampa) <u>7/</u>	006	14.85	10.64	1.3103
Mideast (Cleveland) <u>8/</u>	033	12.85	8.64	1.2903
Upper Midwest (Chicago) <u>9/</u>	030	12.65	8.44	1.2883
Central (Kansas City) <u>10/</u>	032	12.85	8.64	1.2903
Southwest (Dallas) <u>11/</u>	126	13.85	9.64	1.3003
Arizona (Phoenix) <u>12/</u>	131	13.20	8.99	1.2938
Pacific Northwest (Seattle) <u>13/</u>	124	12.75	8.54	1.2893
All-Market Average		13.50	9.29	1.2968

1/ To convert the Class I price per 100 pounds to the Class I price per gallon, divide by 11.63--the approximate number of gallons in 100 pounds of milk. 2/ Note: The mandatory \$0.20 per cwt. processor assessment under the Fluid Milk Promotion Order is not included in the Class I prices shown on this table. 3/ Names in parentheses are the major city in the principal pricing point of the markets. 4/ Class I prices at other cities are: New York City, minus \$0.10; Philadelphia, minus \$0.20; Baltimore, minus \$0.25, and Washington, DC, minus \$0.25. 5/ Class I prices at other cities are: Knoxville, minus \$0.30 and Louisville, minus \$0.90. 6/ Class I prices at other cities are: New Orleans; plus \$0.50; Memphis, minus \$0.30; Nashville, minus \$0.50; and Springfield, Mo., minus \$0.90. 7/ Class I prices at other cities are: Orlando, same; Miami, plus \$0.30; and Jacksonville, minus \$0.30. 8/ Class I prices at other cities are: Indianapolis, same; Cincinnati, plus \$0.20; Pittsburgh, plus \$0.10; and Detroit, minus \$0.20. 9/ Class I prices at other cities are: Milwaukee, minus \$0.05; and Minneapolis, minus \$0.10. 10/ Class I prices at other cities are: Des Moines, minus \$0.20; Omaha, minus \$0.15; Oklahoma City, plus \$0.60; St. Louis, same; and Denver plus \$0.55. 11/ Class I prices at other cities are: Houston, plus \$0.60; San Antonio, plus \$0.45; Albuquerque, minus \$0.65; and El Paso, minus \$0.75. 12/ Effective May 1, 2006, the name of the Federal order was changed. Clark County, Nevada which includes Las Vegas, was removed from the marketing area. 12/ Effective May 1, 2006, the name of the Federal milk order was changed. Clark County, Nevada, which includes Las Vegas, was removed from the marketing area. 13/ Class prices at other cities are: Portland same; and Spokane, same..

THE DAIRY OUTLOOK

Hot, Humid Conditions Stress U.S. Dairy Herd

Milk production estimates were slightly reduced in August to 181.3 billion pounds, down 740 million pounds from July estimates. Unusually hot weather throughout most of the United States, but especially in California and the Southwest, has adversely affected milk production. The major effect of the heat was to reduce output per cow in the third quarter. This month's revised lower projected third quarter production and adjustments to second and fourth quarter production reduces the USDA estimate of annual milk per cow to 19,890 pounds for 2006 from 19,965 pounds in July.

The 2007 production forecast is unchanged from July. The July *Cattle* report indicated that the inventory of dairy replacement heifers over 500 pounds was up 3 percent year-over-year, but relatively weak returns may encourage a gradual reduction in the dairy herd. The higher number of replacements available in coming months should aid in replacing aging animals and those lost to heat. However, the decline in the value of milk cows to less than \$1,700 per head in July from \$1,770 in April as reported in *Agricultural Prices* suggests an easing in the tightness in replacement demand for dairy cattle.

The weather impact on milk production is combining with seasonal factors to reduce the amount of milk available for manufacturing purposes. During August, the Southeast begins to import milk from surrounding regions to offset seasonal declines in local production. Additionally, handlers begin to fill the pipeline for the beginning of the school year. Daily fluid milk sales are typically higher in the fall months compared with summer. This increased demand for fluid use has reduced seasonal availabilities to the manufacturing sector, adding to tightness from reduced production.

Cheese prices, on a gradual decline all year, have stabilized in recent weeks and increased some in response to the hot weather. Year-to-date prices are below those of 2005 and 2004. Although supply conditions for cheese are tightening both seasonally and due to weather, there are ample supplies in storage for at least the short run. The cheese price should recover in the fourth quarter. The 2006 yearly average price is projected to be \$1.22-\$1.24 per pound. The forecast for 2007 is unchanged from July.

The butter price has inched upward the last week of July, and sales have increased through the end of July but there are indications that stocks are being drawn down. Lower supplies of fluid milk and reduced fat tests are reducing availability of cream for butter production. The butter price should continue to strengthen for the remainder of 2006 and will likely average \$1.21-\$1.25 per pound for the year. Like other dairy products, the steady global demand outlook for NDM faces reduced supply. Both seasonal factors and weather have reduced supplies to drying facilities. Whey markets have also firmed in recent weeks. The price forecast for NDM is expected to average 85.5-87.5 cents per pound for 2006. The forecast price for 2007 remains unchanged from July at 81.5-88.5 cents per pound. Whey price is projected steady to lower for the third quarter. Some price recovery in the fourth quarter should place the 2006 yearly price at 29.5-31.5 cents per pound.

The slightly higher product prices will strengthen milk prices in general. The Class III price is expected to reach \$11.50-\$11.70 per cwt in 2006, well below 2005 but marginally higher than July's projected range. Forecast 2007 price is expected to be \$12.00-\$13.00, up slightly from July's forecast. The 2006 Class IV price is projected to be \$10.75-\$11.05 per cwt, up significantly from July's estimate. The 2007 Class IV price forecast is unchanged from July. The all-milk price should recover during the months of August to December as inventories of products are worked down and weather-related production declines work through product markets. The all-milk price is expected to be \$12.60-\$12.80 per cwt for 2006. Although production in 2007 is forecast higher than in 2006, the rate of increase is forecast to increase less than 1 percent. This will likely increase the 2007 all-milk price to \$12.90-\$13.90 per cwt.

SOURCE: "Livestock, Dairy, and Poultry Outlook", LDP-M-146, August 17, 2006, Economic Research Service, USDA. For more information, contact Roger Hoskin, (202) 694-5148.

MONTHLY COLD STORAGE REPORT – TOTAL U.S. STOCKS

NOTE: Data for this report is collected from public, private and semiprivate warehouses, apple houses, and meat packing plants where food products are generally stored for 30 days or more. Commodities in space owned or leased and operated by the armed services are not reported. Food stocks held under bond are included in the storage data.

All stocks in thousand pounds except where otherwise indicated

U.S. HOLDINGS OF DAIRY PRODUCTS

COMMODITY	JUNE 30, 2004	JUNE 30, 2005	REVISED JUNE 30, 2006	JULY 31, 2004	JULY 31, 2005	JULY 31, 2006
Butter	189,183	179,648	230,376	193,520	176,666	229,118
Cheese, Natural American	590,544	590,113	598,212	615,904	603,471	599,114
Cheese, Swiss	23,958	22,737	35,536	28,012	22,483	36,589
Cheese, Other Natural	227,545	210,594	229,773	226,086	211,227	251,681
Total Cheese	842,047	823,444	863,521	870,002	837,181	887,384

U.S. GOVERNMENT OWNED COLD STORAGE HOLDINGS

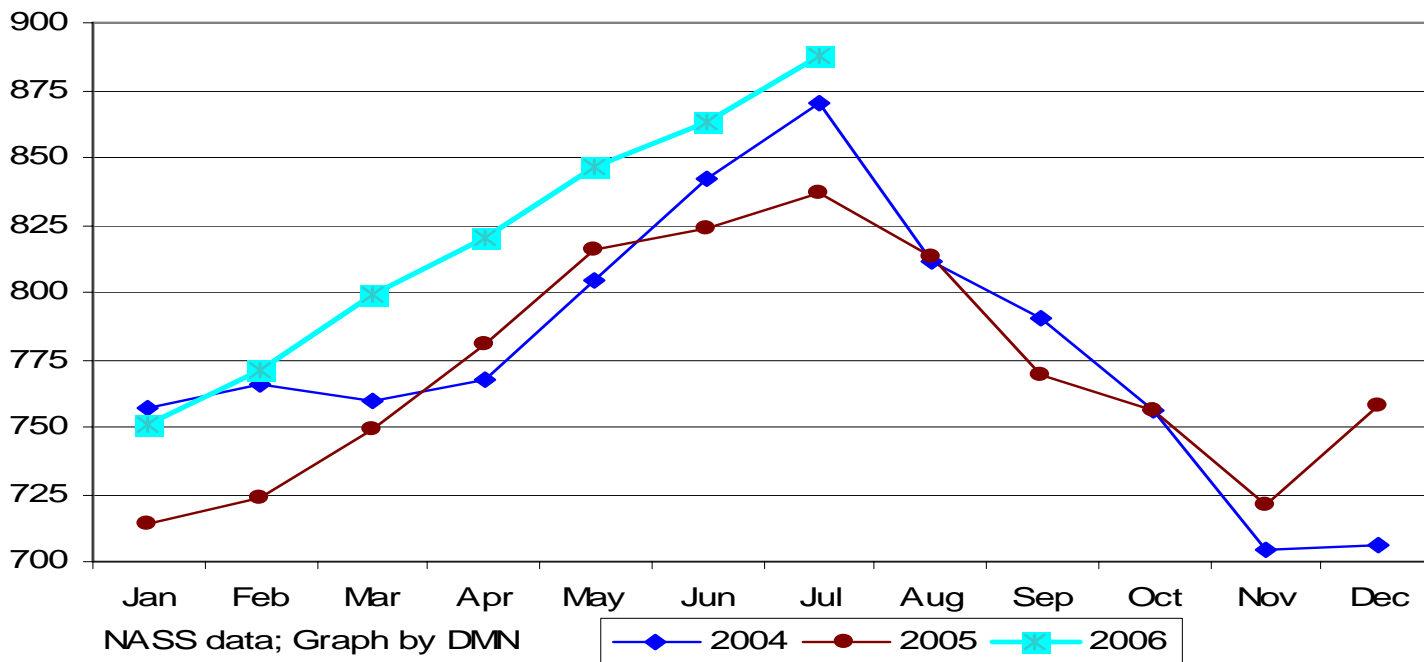
Butter	155	177	113	136	113	97
Natural American Cheese	8,658	454	21	7,077	546	79

JULY STORAGE HOLDINGS BY REGION

REGION	Natural American Cheese			Butter *			Other Natural Cheese		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
New England	26,935	29,776	35,987	---	---	---	442	44	42
Middle Atlantic	64,872	52,376	54,641	---	---	---	19,614	13,887	16,858
East North Central	238,848	250,136	238,645	---	---	---	126,711	122,162	153,290
West North Central	138,640	132,845	113,952	---	---	---	56,660	54,776	61,647
South Atlantic	7,176	7,281	5,633	---	---	---	109	113	177
East South Central	94	147	270	---	---	---	2,487	2,581	3,176
West South Central	5,933	5,030	5,367	---	---	---	80	53	825
Mountain	33,228	40,402	49,888	---	---	---	5,761	3,183	403
Pacific	100,178	85,478	94,731	---	---	---	14,222	14,428	15,263
TOTAL	615,904	603,471	599,114	193,520	176,666	229,118	226,086	211,227	251,681

*Regional breakdowns are not reported to avoid possible disclosure of individual operations.

MILLION POUNDS TOTAL CHEESE COLD STORAGE HOLDINGS



COMMERCIAL AND GOVERNMENT STORAGE HOLDINGS, JANUARY 2005 TO DATE

Month	Butter						Natural American Cheese						Nonfat Dry Milk					
	Total <u>1/</u>		Commercial		Government		Total <u>1/</u>		Commercial		Government		Total <u>1/</u> <u>2/</u>		Commercial		Government <u>2/</u>	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	Million Pounds						Million Pounds						Million Pounds					
January	110	77	110	77	<u>3/</u>	<u>3/</u>	533	484	533	480	<u>3/</u>	4	179	440	114	83	65	357
February	149	111	148	111	<u>3/</u>	<u>3/</u>	549	505	548	502	<u>3/</u>	3	175	374	119	79	55	296
March	170	132	170	132	<u>3/</u>	<u>3/</u>	564	527	564	526	<u>3/</u>	2	156	321	127	84	30	236
April	200	165	200	164	<u>3/</u>	<u>3/</u>	574	554	574	552	<u>3/</u>	2	176	276	155	108	21	168
May	230	178	230	178	<u>3/</u>	<u>3/</u>	591	583	591	582	<u>3/</u>	1	165	259	145	113	20	147
June	230	180	230	179	<u>3/</u>	<u>3/</u>	598	590	598	590	<u>3/</u>	<u>3/</u>	148	NA	110	116	38	NA
July	229	177	229	177	<u>3/</u>	<u>3/</u>	599	603	599	603	<u>3/</u>	1		235		120		116
August		149		149	<u>3/</u>			582		581		1		177		110		67
September		124		124	<u>3/</u>			555		554		1		182		95		87
October		98		98	<u>3/</u>			542		541		1		163		89		74
November		60		60	<u>3/</u>			517		516		1		159		89		70
December		59		59	<u>3/</u>			537		537		<u>3/</u>		183		114		69

NA = Not available.

1/ Total may not add due to rounding. 2/ Includes instant nonfat dry milk. 3/ Less than 500,000 lbs.COMMERCIALLY OWNED COLD STORAGE HOLDINGS FOR THE UNITED STATES 1/

Commodity	Jun 30, 2004	Jun 30, 2005	Jun 30, 2006	Jul 31, 2004	Jul 31, 2005	Jul 31, 2006
	Thousand Pounds					
Butter	189,028	179,471	230,263	193,384	176,553	229,021
Natural American Cheese	581,886	589,659	598,191	608,827	602,925	599,035

1/ Total holdings minus Government owned holdings. For more information, see page 10 of this report.

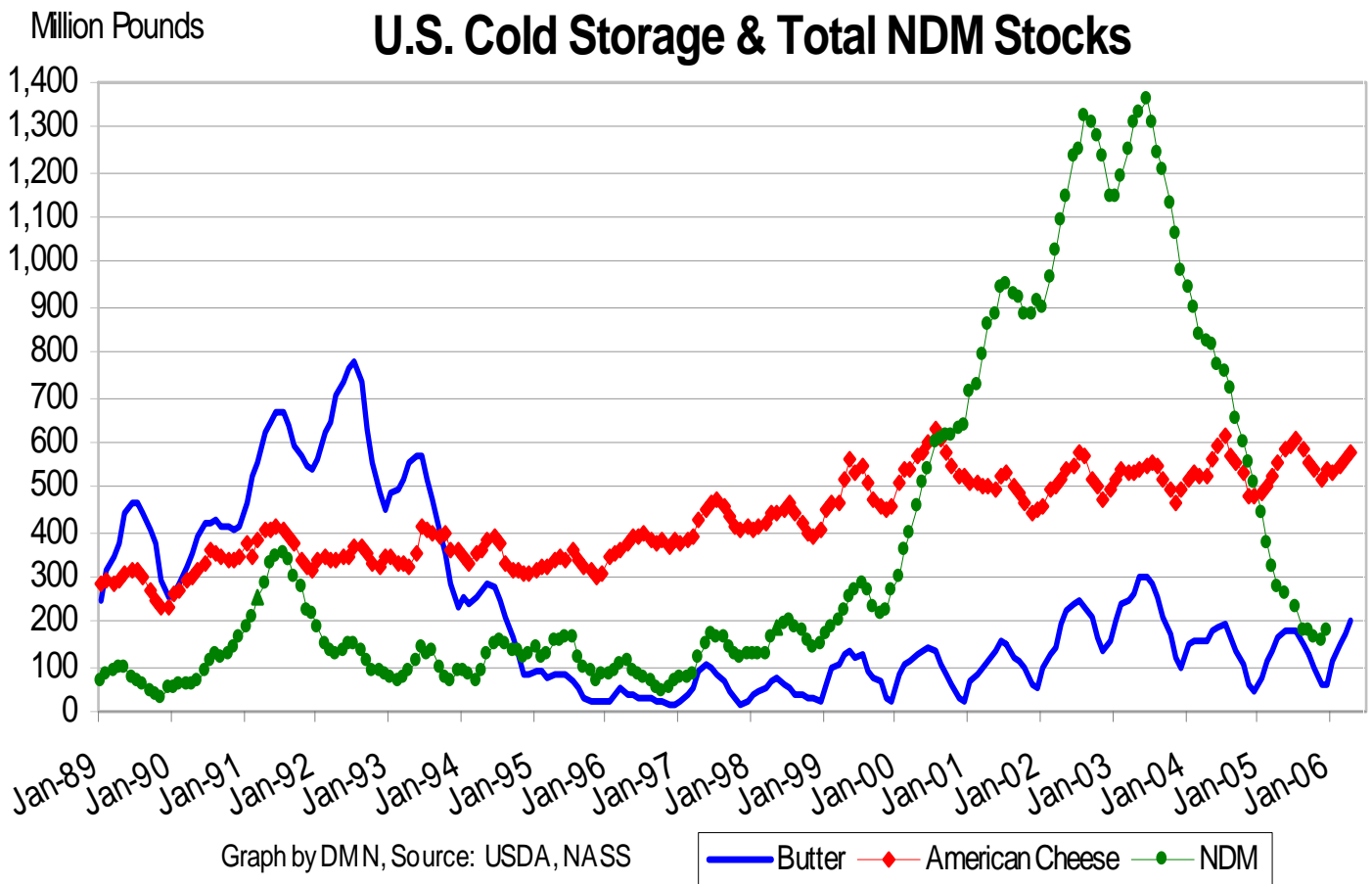
SOURCE: "Cold Storage," Co St 1 (8-06) and "Dairy Products," Da 2-6 (8-06), Agricultural Statistics Board, National Agricultural Statistics Service; and "Summary of Processed Commodities in Store," Farm Service Agency.

ANNOUNCED COOPERATIVE CLASS I PRICES FOR SELECTED CITIES IN FEDERAL MILK ORDERS, SEPTEMBER 2006, WITH COMPARISONS 1/

For September 2006, the all-city average announced cooperative Class I price was \$15.33 per cwt., \$1.95 higher than the Federal milk order (FMO) Class I price average for these cities, a new record high difference. The September cooperative Class I price was \$.09 lower than the August price, while the Federal order Class I price was \$.12 lower. On an individual city basis, the difference between the Federal order and announced cooperative Class I price ranged from \$.15 in Phoenix, AZ, to \$3.72 in Miami, FL. For September 2005, the all-city average announced cooperative Class I price was \$17.89, \$1.66 higher than the Federal order Class I price average for these cities.

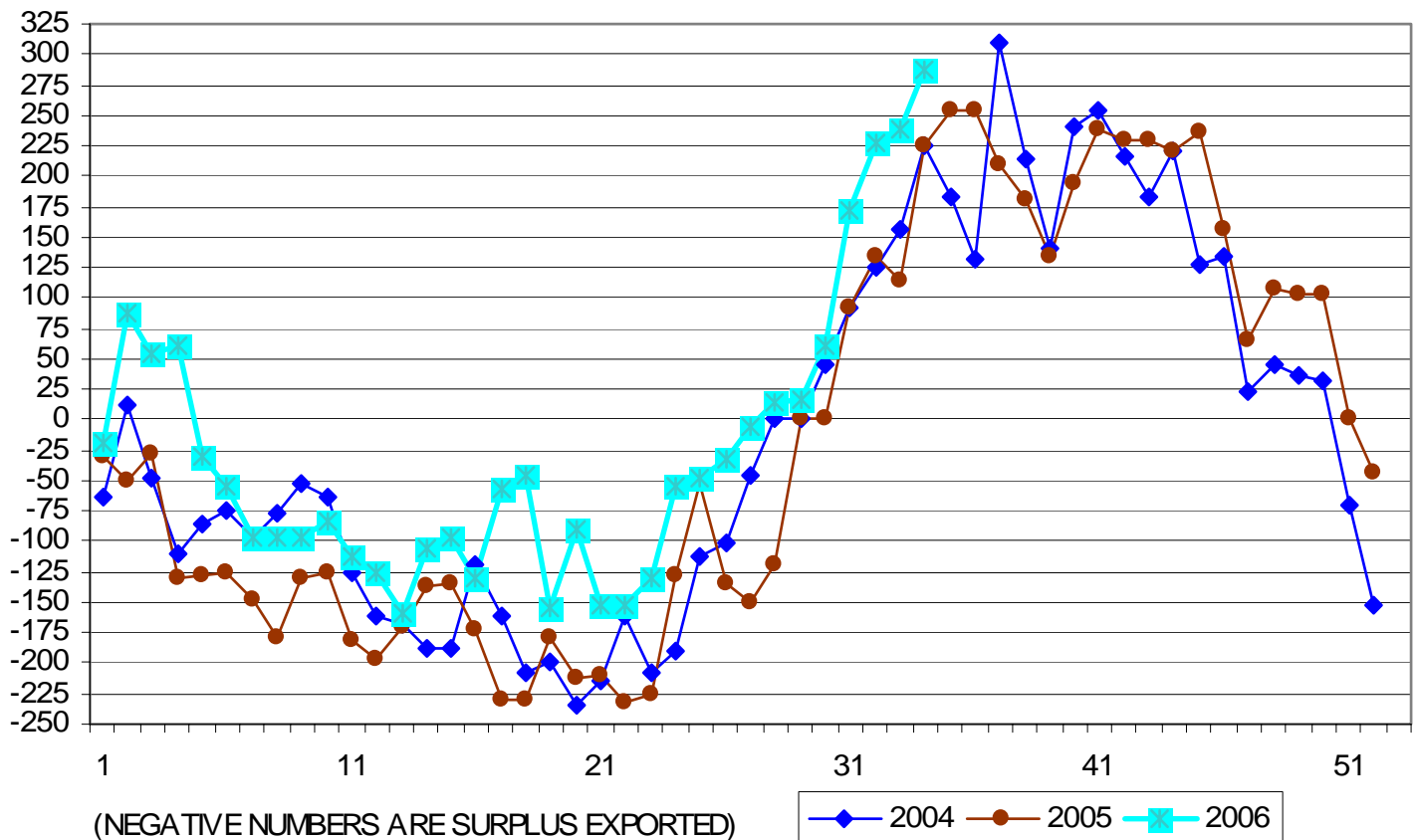
City	September 2006		
	Announced Cooperative Class I Price	Federal Milk Order Class I Price	Difference
	Dollars per hundredweight, 3.5% butterfat		
Atlanta, GA	16.70	13.95	2.75
Baltimore, MD	15.77	13.85	1.92
Boston, MA	15.60	14.10	1.50
Charlotte, NC	16.70	13.95	2.75
Chicago, IL	14.96	12.65	2.31
Cincinnati, OH	15.08	13.05	2.03
Cleveland, OH	14.88	12.85	2.03
Dallas, TX	15.75	13.85	1.90
Denver, CO	14.25	13.40	0.85
Des Moines, IA	14.44	12.65	1.79
Detroit, MI	14.72	12.65	2.07
Hartford, CT	15.50	14.00	1.50
Houston, TX	16.35	14.45	1.90
Indianapolis, IN	14.88	12.85	2.03
Kansas City, MO	14.63	12.85	1.78
Louisville, KY	15.80	13.05	2.75
Memphis, TN	16.20	13.65	2.55
Miami, FL	18.87	15.15	3.72
Milwaukee, WI	14.91	12.60	2.31
Minneapolis, MN	14.31	12.55	1.76
New Orleans, LA	17.00	14.45	2.55
Oklahoma City, OK	15.25	13.45	1.80
Omaha, NE	14.19	12.70	1.49
Philadelphia, PA	16.17	13.90	2.27
Phoenix, AZ	13.35	13.20	0.15
Pittsburgh, PA	15.37	12.95	2.42
St. Louis, MO	14.53	12.85	1.68
Seattle, WA	13.17	12.75	0.42
Springfield, MO	14.85	13.05	1.80
Washington, DC	15.77	13.85	1.92
Simple Average	15.33	13.38	1.95

1/ This table contains information obtained from the Class I price announcements sent by the major cooperative in each city market to all handlers who buy milk from them. These over-order prices include charges for various services performed by the cooperative. In some instances, these over-order prices may not include all credits that may be allowed. These prices have not been verified as having been actually paid by handlers.



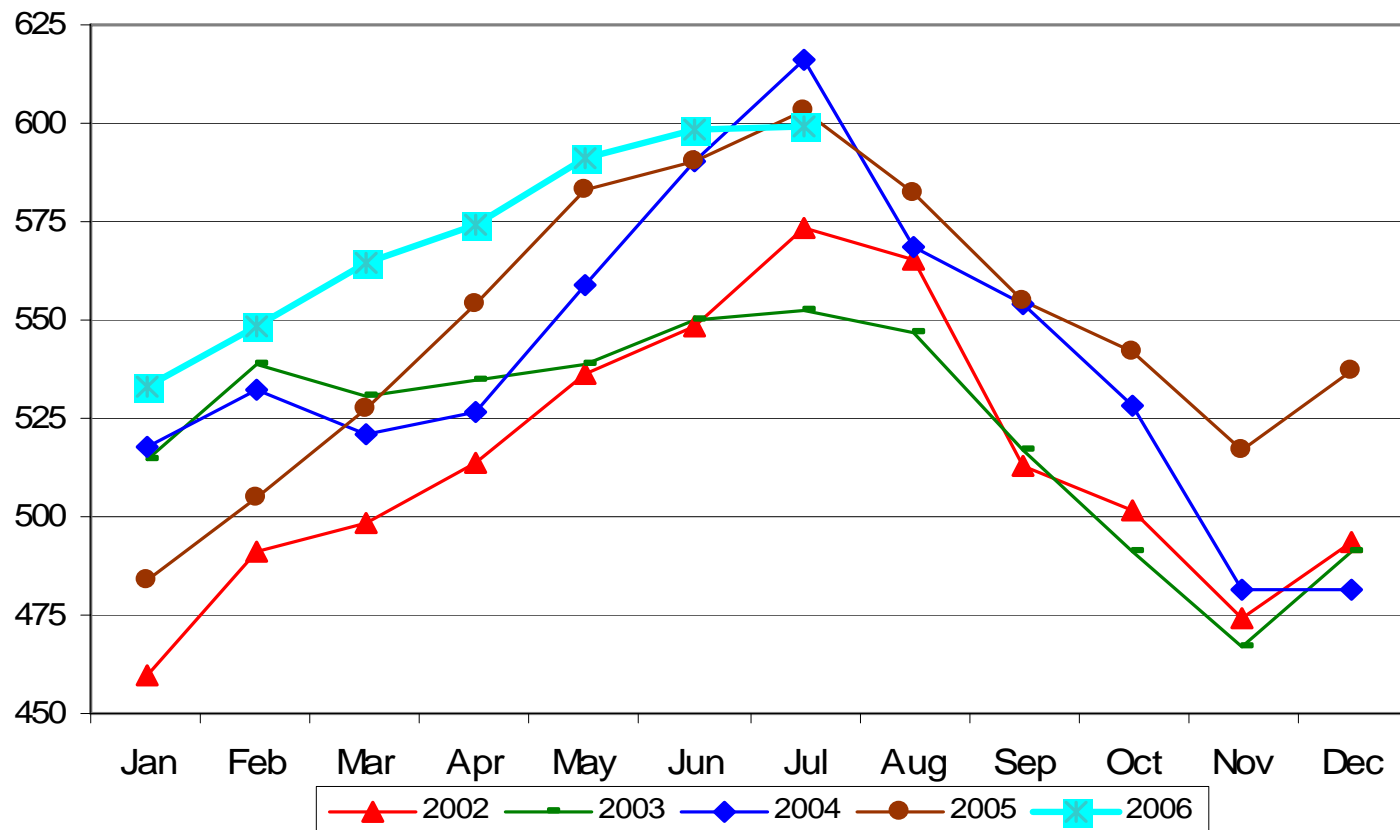
TRUCKLOADS

WEEKLY FLORIDA MILK SHIPMENTS



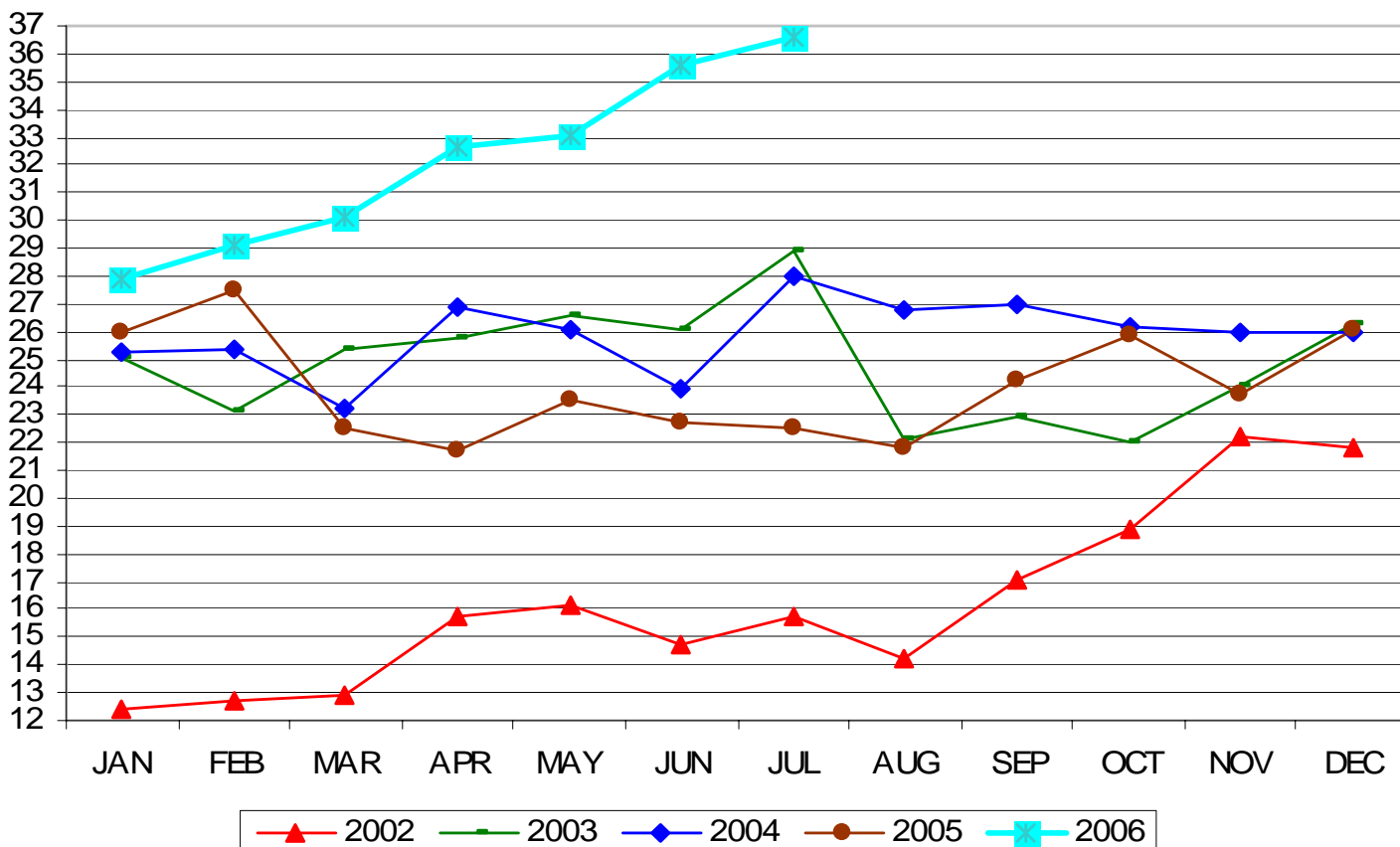
AMERICAN CHEESE COLD STORAGE HOLDINGS

MILLION POUNDS



U.S. SWISS CHEESE COLD STORAGE HOLDINGS

Million Pounds



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